

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                               |  |                        |
|---|-------------------------------|--|------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Government Name<br><b>Village of Vermontville</b>      | County<br><b>Eaton</b> |
| Audit Date<br><b>12/31/05</b>   | Opinion Date<br><b>5/5/06</b> | Date Accountant Report Submitted to State:<br><b>7/19/06</b> |                        |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

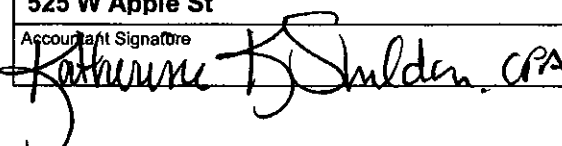
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   | ✓        |                 |              |

|  |                         |                        |                     |
|--|-------------------------|------------------------|---------------------|
| Certified Public Accountant (Firm Name)<br><b>Walker, Fluke &amp; Sheldon, PLC</b>                         |                         |                        |                     |
| Street Address<br><b>525 W Apple St</b>  | City<br><b>Hastings</b> | State<br><b>MI</b>     | ZIP<br><b>49058</b> |
| Accountant Signature<br> |                         | Date<br><b>7/19/06</b> |                     |



**WALKER, FLUKE & SHELDON, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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May 5, 2006

To the Village Council  
Village of Vermontville  
Eaton County, Michigan

We have recently completed the audit of the financial statements of the Village of Vermontville, Eaton County, Michigan, as of and for the ten months ended December 31, 2005, and have forwarded the report to you under separate cover. During the course of the audit, items came to our attention, which require further comment.

**Budgets Should Be Reviewed On A Periodic Basis**

P.A. 621 of 1978, Section 17, provides that a local unit should amend the expenditures budget when it appears that the budgeted revenues will be less than anticipated expenditures. In addition, Section 18 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2005, the Village over expended in several areas. The Village currently monitors the budget and does amend the budget from time to time and will continue to do so. In addition, consideration should be taken at year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

We would like to take this opportunity to thank the Village employees and officials for the cooperation extended to us during the recent audit. We would be happy to discuss the above comments or any other matters with you at your request.

*Walker, Fluke & Sheldon, PLC*

**VILLAGE OF VERMONTVILLE**  
**FINANCIAL STATEMENTS**  
For the year ended December 31, 2005

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**INDEPENDENT AUDITORS' REPORT**

To the Village Council  
Village of Vermontville  
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Vermontville, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Vermontville, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Vermontville, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2006, on our consideration of the Village of Vermontville, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Village of Vermontville. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Hastings, Michigan  
May 5, 2006

*Walker, Fluke & Sheldon, PLC*

**VILLAGE OF VERMONTVILLE**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**December 31, 2005**

|  | <b>Primary Government</b>  |                          |                            |
|--|----------------------------|--------------------------|----------------------------|
|  | <b>Governmental</b>        | <b>Business-Type</b>     |                            |
| <b>ASSETS</b>                                    | <b>Activities</b>          | <b>Activities</b>        | <b>Total</b>               |
| Cash and Cash Equivalents                        | \$ 570,492                 | \$ 117,508               | \$ 688,000                 |
| Investments                                      | 160,977                    | 5,000                    | 165,977                    |
| Receivables (Net)                                |                            |                          |                            |
| Taxes - Delinquent                               | 14,373                     | -                        | 14,373                     |
| Special Assessments                              | 1,866                      | -                        | 1,866                      |
| Accounts   | -                          | 19,033                   | 19,033                     |
| Other  | 274                        | 4,522                    | 4,796                      |
| Due From Other Units of Government               | 316,454                    | 46,846                   | 363,300                    |
| Due From Other Funds                             | 36,475                     | -                        | 36,475                     |
| Internal Balances                                | 35,184                     | (35,184)                 | -                          |
| Restricted Assets                                | -                          | 61,202                   | 61,202                     |
| Capital Assets (Net of Accumulated Depreciation) | <u>523,628</u>             | <u>636,617</u>           | <u>1,160,245</u>           |
| <b>Total Assets</b>                              | <u><b>1,659,723</b></u>    | <u><b>855,544</b></u>    | <u><b>2,515,267</b></u>    |
| <b>LIABILITIES</b>                               |                            |                          |                            |
| Accounts Payable                                 | 288,695                    | 49,038                   | 337,733                    |
| Accrued Liabilities                              | 6,973                      | 5,329                    | 12,302                     |
| Due to Other Funds                               | 36,475                     | -                        | 36,475                     |
| Noncurrent Liabilities                           |                            |                          |                            |
| Due Within One Year                              | 12,062                     | 28,500                   | 40,562                     |
| Due In More Than One Year                        | <u>107,500</u>             | <u>367,500</u>           | <u>475,000</u>             |
| <b>Total Liabilities</b>                         | <u><b>451,705</b></u>      | <u><b>450,367</b></u>    | <u><b>902,072</b></u>      |
| <b>NET ASSETS</b>                                |                            |                          |                            |
| Net Assets                                       |                            |                          |                            |
| Invested in Capital Assets, Net of Related Debt  | 413,628                    | 240,617                  | 654,245                    |
| Restricted for Debt Service                      | -                          | 39,401                   | 39,401                     |
| Restricted for Capital Projects                  | -                          | 21,801                   | 21,801                     |
| Unrestricted                                     | <u>794,390</u>             | <u>103,358</u>           | <u>897,748</u>             |
| <b>Total Net Assets</b>                          | <u><b>\$ 1,208,018</b></u> | <u><b>\$ 405,177</b></u> | <u><b>\$ 1,613,195</b></u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**December 31, 2005**

| <b>Functions/Programs</b>      | <b>Expenses</b>   | <b>Program</b>     | <b>Net (Expense) Revenue and</b> |                      |                     |
|--------------------------------|-------------------|--------------------|----------------------------------|----------------------|---------------------|
|                                |                   | <b>Revenues</b>    | <b>Changes in Net Assets</b>     |                      |                     |
|                                |                   | <b>Charges for</b> | <b>Governmental</b>              | <b>Business-Type</b> | <b>Total</b>        |
|                                |                   | <b>Services</b>    | <b>Activities</b>                | <b>Activities</b>    |                     |
| <b>Primary Government</b>      |                   |                    |                                  |                      |                     |
| Governmental Activities        |                   |                    |                                  |                      |                     |
| Legislative                    | \$ 29,466         | \$ -               | \$ (29,466)                      | \$ -                 | \$ (29,466)         |
| General Government             | 66,950            | 1,428              | (65,522)                         | -                    | (65,522)            |
| Public Safety                  | 13,069            | -                  | (13,069)                         | -                    | (13,069)            |
| Public Works                   | 276,003           | -                  | (276,003)                        | -                    | (276,003)           |
| Recreational and Cultural      | 993               | -                  | (993)                            | -                    | (993)               |
| Interest and Fiscal Charges    | 5,046             | -                  | (5,046)                          | -                    | (5,046)             |
| Total Governmental Activities  | <u>391,527</u>    | <u>1,428</u>       | <u>(390,099)</u>                 | <u>-</u>             | <u>(390,099)</u>    |
| Business-Type Activities       |                   |                    |                                  |                      |                     |
| Sewer                          | 44,758            | 65,812             | -                                | 21,054               | 21,054              |
| Water                          | 129,432           | 81,675             | -                                | (47,757)             | (47,757)            |
| Interest and Fiscal Charges    | 19,437            | -                  | -                                | (19,437)             | (19,437)            |
| Total Business-Type Activities | <u>193,627</u>    | <u>147,487</u>     | <u>-</u>                         | <u>(46,140)</u>      | <u>(46,140)</u>     |
| Total Primary Government       | <u>\$ 585,154</u> | <u>\$ 148,915</u>  | <u>(390,099)</u>                 | <u>(46,140)</u>      | <u>(436,239)</u>    |
| General Revenues               |                   |                    |                                  |                      |                     |
| Taxes and Penalties            |                   |                    | 152,232                          | -                    | 152,232             |
| Licenses and Permits           |                   |                    | 1,042                            | -                    | 1,042               |
| Federal Grants                 |                   |                    | 467,753                          | 75,975               | 543,728             |
| State Grants                   |                   |                    | 155,129                          | -                    | 155,129             |
| Investment Income              |                   |                    | 12,193                           | 3,817                | 16,010              |
| Other                          |                   |                    | 13,087                           | -                    | 13,087              |
| Total General Revenue          |                   |                    | <u>801,436</u>                   | <u>79,792</u>        | <u>881,228</u>      |
| Operating Transfers In (Out)   |                   |                    | <u>(11,218)</u>                  | <u>11,218</u>        | <u>-</u>            |
| Change in Net Assets           |                   |                    | <u>400,119</u>                   | <u>44,870</u>        | <u>444,989</u>      |
| Net Assets-Beginning           |                   |                    | <u>807,899</u>                   | <u>360,307</u>       | <u>1,168,206</u>    |
| Net Assets-Ending              |                   |                    | <u>\$ 1,208,018</u>              | <u>\$ 405,177</u>    | <u>\$ 1,613,195</u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**GOVERNMENT FUND BALANCE SHEET**  
**December 31, 2005**

|  |                   |                   |                   | <b>Total</b>        |
|--|-------------------|-------------------|-------------------|---------------------|
|  | <b>General</b>    | <b>Major</b>      | <b>Local</b>      | <b>Governmental</b> |
| <b>ASSETS</b>                              |                   | <b>Streets</b>    | <b>Streets</b>    | <b>Funds</b>        |
| Cash and Cash Equivalents                  | \$ 195,941        | \$ 201,455        | \$ 173,096        | \$ 570,492          |
| Investments                                | 125,977           | 35,000            | -                 | 160,977             |
| Receivables (Net)                          |                   |                   |                   |                     |
| Taxes - Delinquent                         | 14,373            | -                 | -                 | 14,373              |
| Special Assessments                        | -                 | -                 | 1,866             | 1,866               |
| Other                                      | 274               | -                 | -                 | 274                 |
| Due From Other Units of Government         | 254,912           | 60,229            | 1,313             | 316,454             |
| Due From Other Funds                       | 58,547            | 4,850             | 15,886            | 79,283              |
| <b>Total Assets</b>                        | <b>\$ 650,024</b> | <b>\$ 301,534</b> | <b>\$ 192,161</b> | <b>1,143,719</b>    |
| <b>LIABILITIES AND FUND BALANCE</b>        |                   |                   |                   |                     |
| Liabilities                                |                   |                   |                   |                     |
| Accounts Payable                           | \$ 231,130        | \$ 57,527         | \$ 38             | 288,695             |
| Accrued Liabilities                        | 5,809             | 1,164             | -                 | 6,973               |
| Due To Other Funds                         | 14,961            | 21,072            | 8,066             | 44,099              |
| Deferred Revenue                           | 14,373            | -                 | -                 | 14,373              |
| <b>Total Liabilities</b>                   | <b>266,273</b>    | <b>79,763</b>     | <b>8,104</b>      | <b>354,140</b>      |
| Fund Balances                              |                   |                   |                   |                     |
| Reserved                                   | -                 | -                 | -                 | -                   |
| Designated                                 | -                 | -                 | -                 | -                   |
| Unreserved-Undesignated                    | 383,751           | 221,771           | 184,057           | 789,579             |
| <b>Total Fund Balances</b>                 | <b>383,751</b>    | <b>221,771</b>    | <b>184,057</b>    | <b>789,579</b>      |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 650,024</b> | <b>\$ 301,534</b> | <b>\$ 192,161</b> |                     |

**Reconciliation of the Governmental Fund's Balance Sheet to the Statement of Net Assets:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds

|                                |                |         |
|--------------------------------|----------------|---------|
| Governmental capital assets    | 718,785        |         |
| Less: Accumulated Depreciation | <u>195,157</u> | 523,628 |

Long-term liabilities used in governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds (119,562)

Deferred revenues reported in governmental funds are recognized as revenues in the governmental activities 14,373

Net Assets of Governmental Activities \$ 1,208,018

The Notes to Financial Statements are an integral part of this statement.



**VILLAGE OF VERMONTVILLE**  
**GOVERNMENT FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**For the Year Ended December 31, 2005**

|  | <u>General</u>    | <u>Major<br/>Streets</u> | <u>Local<br/>Streets</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------|--------------------------|--------------------------|---|
| <b>Revenues</b>  |                   |                          |                          |   |
| Taxes and Penalties  | \$ 157,430        | \$ -                     | \$ -                     | \$ 157,430                              |
| Licenses and Permits   | 1,042             | -                        | -                        | 1,042                                   |
| Federal Grants   | 358,031           | 109,722                  | -                        | 467,753                                 |
| State Grants   | 87,268            | 51,188                   | 16,673                   | 155,129                                 |
| Charges for Services   | 1,428             | -                        | -                        | 1,428                                   |
| Interest and Rentals   | 6,821             | 2,999                    | 2,373                    | 12,193                                  |
| Other Revenue  | <u>9,649</u>      | <u>1,627</u>             | <u>1,811</u>             | <u>13,087</u>                           |
| <b>Total Revenues</b>  | <u>621,669</u>    | <u>165,536</u>           | <u>20,857</u>            | <u>808,062</u>                          |
| <b>Expenditures</b>  |                   |                          |                          |   |
| Current  |                   |                          |                          |   |
| Legislative  | 29,466            | -                        | -                        | 29,466                                  |
| General Government   | 130,998           | -                        | -                        | 130,998                                 |
| Public Safety  | 13,069            | -                        | -                        | 13,069                                  |
| Public Works   | 200,741           | 146,813                  | 22,680                   | 370,234                                 |
| Recreation and Cultural  | 52                | -                        | -                        | 52                                      |
| Debt Service   | -                 | 6,296                    | -                        | 6,296                                   |
| Capital Outlay   | <u>265,487</u>    | <u>-</u>                 | <u>-</u>                 | <u>265,487</u>                          |
| <b>Total Expenditures</b>  | <u>639,813</u>    | <u>153,109</u>           | <u>22,680</u>            | <u>815,602</u>                          |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b>                                      | <u>(18,144)</u>   | <u>12,427</u>            | <u>(1,823)</u>           | <u>(7,540)</u>                          |
| <b>Other Financing Sources (Uses)</b>  |                   |                          |                          |   |
| Operating Transfers In   | -                 | 14,812                   | 26,499                   | 41,311                                  |
| Operating Transfers Out  | <u>(52,529)</u>   | <u>-</u>                 | <u>-</u>                 | <u>(52,529)</u>                         |
| <b>Total Other Financing Sources (Uses)</b>  | <u>(52,529)</u>   | <u>14,812</u>            | <u>26,499</u>            | <u>(11,218)</u>                         |
| <b>Excess of Revenues and Other Sources<br/>Over (Under) Expenditures<br/>and Other Uses</b> | <u>(70,673)</u>   | <u>27,239</u>            | <u>24,676</u>            | <u>(18,758)</u>                         |
| <b>Fund Balance-January 1, 2005</b>  | <u>454,424</u>    | <u>194,532</u>           | <u>159,381</u>           | <u>808,337</u>                          |
| <b>Fund Balance-December 31, 2005</b>  | <u>\$ 383,751</u> | <u>\$ 221,771</u>        | <u>\$ 184,057</u>        | <u>\$ 789,579</u>                       |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2005**

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|   |          |                    |
|---|----------|--------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   |          | <b>\$ (18,758)</b> |
| Revenues in the Statement of Activities that does not provide current financial resources are not reported as revenues in the funds   |          | (5,198)            |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces debt)                                       |          | 1,250              |
| Repayment of compensated absences is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces debt)                                 |          | 508                |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives |          |                    |
| Expenditures for capital assets   | 435,788  |                    |
| Less: Current year depreciation   | 13,471   |                    |
| Less: Proceeds from Disposal of Capital Assets  | -        |                    |
| Less: Loss from Disposal of Capital Assets  | <u>-</u> | <u>422,317</u>     |
| Change in Net Assets of Governmental Funds Activities   |          | <u>\$ 400,119</u>  |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**PROPRIETARY FUNDS STATEMENT OF NET ASSETS**  
**December 31, 2005**

| <b>ASSETS</b>                                     | <b>Enterprise Funds</b>  |                          | <b>Total</b>             |
|---|--------------------------|--------------------------|--------------------------|
|   | <b>Sewer<br/>System</b>  | <b>Water<br/>System</b>  |                          |
| Cash and Cash Equivalents                         | \$ 50,423                | \$ 67,085                | \$ 117,508               |
| Investments                                       | -                        | 5,000                    | 5,000                    |
| Receivables (Net)                                 |                          |                          |                          |
| Accounts  | 8,507                    | 10,526                   | 19,033                   |
| Special Assessments                               | 2,595                    | 1,927                    | 4,522                    |
| Due From Other Units of Government                | -                        | 46,846                   | 46,846                   |
| Due from Other Funds                              | 4,376                    | 10,733                   | 15,109                   |
| Restricted Assets                                 | 39,401                   | 21,801                   | 61,202                   |
| Capital Assets (Net of Accumulated Depreciation)  | <u>104,423</u>           | <u>532,194</u>           | <u>636,617</u>           |
| <b>Total Assets</b>                               | <b><u>\$ 209,725</u></b> | <b><u>\$ 696,112</u></b> | <b><u>\$ 905,837</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                 |                          |                          |                          |
| Liabilities                                       |                          |                          |                          |
| Accounts Payable                                  | \$ 493                   | \$ 48,545                | \$ 49,038                |
| Accrued Liabilities                               | 736                      | 4,593                    | 5,329                    |
| Due to Other Funds                                | 26,487                   | 23,806                   | 50,293                   |
| Bonds Payable                                     | <u>66,000</u>            | <u>330,000</u>           | <u>396,000</u>           |
| <b>Total Liabilities</b>                          | <b><u>93,716</u></b>     | <b><u>406,944</u></b>    | <b><u>500,660</u></b>    |
| Net Assets  |                          |                          |                          |
| Net Assets  |                          |                          |                          |
| Investment in Capital Assets, Net of Related Debt | 38,423                   | 202,194                  | 240,617                  |
| Restricted for Debt Service                       | 39,401                   | -                        | 39,401                   |
| Restricted for Capital Projects                   | -                        | 21,801                   | 21,801                   |
| Unrestricted                                      | <u>38,185</u>            | <u>65,173</u>            | <u>103,358</u>           |
| <b>Total Net Assets</b>                           | <b><u>116,009</u></b>    | <b><u>289,168</u></b>    | <b><u>405,177</u></b>    |
| <b>Total Liabilities and Net Assets</b>           | <b><u>\$ 209,725</u></b> | <b><u>\$ 696,112</u></b> | <b><u>\$ 905,837</u></b> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2005**

|  | <b>Enterprise Funds</b> |                         |                   |
|--|-------------------------|-------------------------|-------------------|
|  | <b>Sewer<br/>System</b> | <b>Water<br/>System</b> | <b>Total</b>      |
| Operating Revenues                     |                         |                         |                   |
| Charges for Services                   | \$ 65,324               | \$ 80,952               | \$ 146,276        |
| Other Operating Revenue                | <u>488</u>              | <u>723</u>              | <u>1,211</u>      |
| Total Operating Revenues               | <u>65,812</u>           | <u>81,675</u>           | <u>147,487</u>    |
| Operating Expenses                     |                         |                         |                   |
| Administration                         | 697                     | 739                     | 1,436             |
| Salaries and Fringe Benefits           | 15,986                  | 31,403                  | 47,389            |
| Supplies                               | 60                      | 4,181                   | 4,241             |
| Contractual Services                   | -                       | 18,397                  | 18,397            |
| Maintenance and Repairs                | 1,073                   | 54,425                  | 55,498            |
| Miscellaneous                          | -                       | 2,605                   | 2,605             |
| Depreciation                           | 17,586                  | 3,679                   | 21,265            |
| Utilities                              | 4,095                   | 6,642                   | 10,737            |
| Insurance and Bonds                    | 3,736                   | 3,736                   | 7,472             |
| Water Testing                          | <u>1,525</u>            | <u>3,625</u>            | <u>5,150</u>      |
| Total Operating Expenses               | <u>44,758</u>           | <u>129,432</u>          | <u>174,190</u>    |
| Operating Income                       | <u>21,054</u>           | <u>(47,757)</u>         | <u>(26,703)</u>   |
| Nonoperating Revenues (Expenses)       |                         |                         |                   |
| Federal Grants                         | -                       | 75,975                  | 75,975            |
| Interest Earned on Investments         | 1,694                   | 2,123                   | 3,817             |
| Interest Expense                       | <u>(4,300)</u>          | <u>(15,137)</u>         | <u>(19,437)</u>   |
| Total Nonoperating Revenues (Expenses) | <u>(2,606)</u>          | <u>62,961</u>           | <u>60,355</u>     |
| Income (Loss) Before Transfers In      | <u>18,448</u>           | <u>15,204</u>           | <u>33,652</u>     |
| Operating Transfers In                 | <u>-</u>                | <u>11,218</u>           | <u>11,218</u>     |
| Change in Net Assets                   | 18,448                  | 26,422                  | 44,870            |
| Net Assets-January 1, 2005             | <u>97,561</u>           | <u>262,746</u>          | <u>360,307</u>    |
| Net Assets-December 31, 2005           | <u>\$ 116,009</u>       | <u>\$ 289,168</u>       | <u>\$ 405,177</u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2005**

|  | <b>Enterprise Funds</b> |                         |                   |
|--|-------------------------|-------------------------|-------------------|
|  | <b>Sewer<br/>System</b> | <b>Water<br/>System</b> | <b>Total</b>      |
| Cash Flows From Operating Activities:  |                         |                         |                   |
| Cash Charges for Services  | \$ 65,232               | \$ 80,107               | \$ 145,339        |
| Other Operating Revenue  | 488                     | 723                     | 1,211             |
| Administrative Costs   | (697)                   | (739)                   | (1,436)           |
| Cash Payments to Employees for Services  | (15,986)                | (31,403)                | (47,389)          |
| Cash Payments to Suppliers for Goods and Services  | (13,568)                | (74,676)                | (88,244)          |
| Net Cash Provided by Operating Activities  | <u>35,469</u>           | <u>(25,988)</u>         | <u>9,481</u>      |
| Cash Flows From Noncapital Financing Activities:   |                         |                         |                   |
| Operatings Transfers From Other Funds  | <u>-</u>                | <u>11,218</u>           | <u>11,218</u>     |
| Net Cash Provided (Used) by Noncapital Financing Activities  | <u>-</u>                | <u>11,218</u>           | <u>11,218</u>     |
| Cash Flows From Capital and Related Financing Activities:  |                         |                         |                   |
| Federal Grants   | -                       | 29,129                  | 29,129            |
| Purchases of Capital Assets  | (6,077)                 | (92,826)                | (98,903)          |
| Payment of Principal   | (20,000)                | (3,750)                 | (23,750)          |
| Payment of Interest  | (4,300)                 | (15,137)                | (19,437)          |
| Net Cash Used by Capital and Related<br>Financing Activities   | <u>(30,377)</u>         | <u>(82,584)</u>         | <u>(112,961)</u>  |
| Cash Flows From Investing Activities:  |                         |                         |                   |
| Interest Earned on Cash Equivalents and Investments  | 1,694                   | 2,123                   | 3,817             |
| Proceeds From Maturities of Investments  | -                       | 10,526                  | 10,526            |
| Purchase of Investments  | <u>-</u>                | <u>(12,000)</u>         | <u>(12,000)</u>   |
| Net Cash Provided (Used) by Investing Activities   | <u>1,694</u>            | <u>649</u>              | <u>2,343</u>      |
| Net Increase in Cash and Cash Equivalents  | 6,786                   | (96,705)                | (89,919)          |
| Cash and Cash Equivalents at Beginning of the Year<br>(Including \$40,686 in restricted sewer accounts)<br>(Including \$45,698 in restricted water accounts) | <u>83,038</u>           | <u>190,591</u>          | <u>273,629</u>    |
| Cash and Cash Equivalents at End of the Year<br>(Including \$39,401 in restricted sewer accounts)<br>(Including \$21,801 in restricted water accounts)       | <u>\$ 89,824</u>        | <u>\$ 93,886</u>        | <u>\$ 183,710</u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE**  
**PROPRIETARY FUNDS RECONCILIATION OF OPERATING INCOME TO**  
**NET CASH PROVIDED BY OPERATING ACTIVITIES**  
**For the Year Ended December 31, 2005**

|  | <u>Enterprise Funds</u> |                         |                 |
|--|-------------------------|-------------------------|-----------------|
|  | <u>Sewer<br/>System</u> | <u>Water<br/>System</u> | <u>Total</u>    |
| Operating Income (Loss)  | \$ 21,054               | \$ (47,757)             | \$ (26,703)     |
| Adjustments to Reconcile Operating Income to Net<br>Cash Provided by Operating Activities: |                         |                         |                 |
| Depreciation   | 17,586                  | 3,679                   | 21,265          |
| Decrease (Increase) in Accounts Receivable   | (92)                    | (845)                   | (937)           |
| Decrease (Increase) in Due From Other Funds  | -                       | 545                     | 545             |
| Increase (Decrease) in Accounts Payable  | (1,717)                 | 12,134                  | 10,417          |
| Increase (Decrease) in Accrued Liabilities   | -                       | (124)                   | (124)           |
| Increase (Decrease) in Due To Other Funds  | <u>(1,362)</u>          | <u>6,380</u>            | <u>5,018</u>    |
| Net Cash Provided by Operating Activities  | <u>\$ 35,469</u>        | <u>\$ (25,988)</u>      | <u>\$ 9,481</u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF VERMONTVILLE  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Vermontville conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Vermontville:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities

The Village of Vermontville has elected not to prepare a Management Discussion and Analysis section, but other changes are reflected in the accompanying financial statements (including notes to the financial statements).

**REPORTING ENTITY**

The Village of Vermontville is located in Eaton County, Michigan. The Village Council is made up of nine members. The Village provides various services to its citizens including maintenance of Village streets and other property, water, sewer, and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance service is provided by Vermontville Township.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**  
**(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1<sup>st</sup> based on the taxable valuation of property located in the Village as of the preceding December 31<sup>st</sup>.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 State taxable valuation of the Village totaled \$10,599,400 on which ad valorem taxes levied consisted of 14.608 mills for Village operating purposes raising \$154,212. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2005 taxes collected and 2004 delinquent taxes collected in the current fiscal year.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.
- The Sewer Fund accounts for the operation and maintenance of the sewage disposal system, capital additions, and improvements and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.



**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**  
**(Continued)**

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Bank Deposits and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> based on the taxable valuation of property located in the Village as of the preceding December 31<sup>st</sup>. These taxes are due on August 31 with the final collection date of September 15. After that date, they are added to the county's delinquent tax rolls.

The delinquent real property taxes of the Village are purchased by Eaton County. The County intends to sell tax notes, the proceeds of which were used to pay the Village for these property taxes. These taxes have been recorded as deferred revenue in the fund financial statements for the current year since they are not available to fund expenditures of the current period.

**Restricted Assets** - The Village has restricted assets for debt and capital assets. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose. The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, a bond reserve and capital projects. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 for equipment and \$1,000 for improvements and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)**

**Capital Assets (Continued)**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

|                              |                |
|------------------------------|----------------|
| <u>General Assets</u>        |                |
| Buildings                    | 40 years       |
| Land Improvements            | 20 years       |
| Furniture                    | 10 years       |
| Equipment                    | 7 years        |
| Data Processing Equipment    | 5 years        |
| Distribution System          | 30 to 50 years |
| <u>Infrastructure Assets</u> |                |
| Road and Sidewalks           | 8 to 30 years  |
| Bridges                      | 12 to 50 years |
| Drains, Curbs, Gutters       | 8 to 40 years  |

Compensated Absences (Vacation and Sick Leave Policies) - Vacation pay is earned by the full time employees of the maintenance department according to the length of their employment and is available for use in the year following its accrual. Employees of the Village may carryover 40 hours of granted vacation time per year with a cap of 80 hours. Also, the employees have the option of receiving a cash buyout for up to 40 hours. Supplemental wage payments, such as vacation buyouts, carryovers, and vacation pay are to be paid at the employee's current rate of pay. Upon termination of employment, employees will be paid for all unused vacation time.

Sick leave time is earned at the rate of four hours per month by full time employees of the maintenance department. Sick leave accrued is to be paid at the employee's current rate of pay. The maximum payoff of accumulated sick leave due to the employee's separation from Village employment, for any reason, is 480 hours.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Village does not have any reservations or designations of fund balance.

Retained Earnings Reserve - In the Sewer and Water System funds, certain amounts of the retained earnings are reserved for bond and interest redemption and capital projects. The amounts of the reserves are established by bond ordinances. Any use of the reserve balances would be a violation of the bond ordinances.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information - Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Village Boards prepares the annual budgets prior to December 31. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2005, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

| <u>FUND</u>                     | <u>BUDGET<br/>APPROPRIATION</u> | <u>ACTUAL<br/>EXPENDITURE</u> | <u>BUDGET<br/>VARIANCE</u> |
|---------------------------------|---------------------------------|-------------------------------|----------------------------|
| General                         |                                 |                               |                            |
| Legislative                     | \$ 17,300                       | \$ 29,466                     | \$ 12,166                  |
| General Government:             |                                 |                               |                            |
| Village Clerk                   | \$ 28,716                       | \$ 29,499                     | \$ 783                     |
| Treasurer                       | \$ 12,280                       | \$ 12,442                     | \$ 162                     |
| Buildings and Grounds           | \$ 36,625                       | \$ 346,993                    | \$ 310,368                 |
| Public Works:                   |                                 |                               |                            |
| Garage and Maintenance          | \$ 99,960                       | \$ 187,818                    | \$ 87,858                  |
| Street Lighting                 | \$ 13,000                       | \$ 18,261                     | \$ 5,261                   |
| Other Financing Sources (Uses): |                                 |                               |                            |
| Operating Transfers Out         | \$ 24,000                       | \$ 52,529                     | \$ 28,529                  |
| Major Streets                   |                                 |                               |                            |
| Street Administration           | \$ -                            | \$ 62                         | \$ 62                      |
| Street Construction             | \$ -                            | \$ 125,825                    | \$ 125,825                 |

**ENCUMBRANCE ACCOUNTING**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Vermontville.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

**DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

**DEPOSITS AND INVESTMENTS (Continued)**

The Village has designated two banks for the deposit of the Village of Vermontville funds.

The Village's deposits and investments are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

|                           | <b><u>GOVERNMENTAL<br/>ACTIVITIES</u></b> | <b><u>BUSINESS-TYPE<br/>ACTIVITIES</u></b> | <b><u>TOTAL<br/>PRIMARY<br/>GOVERNMENT</u></b> |
|---------------------------|---|--|--|
| Cash and Cash Equivalents | \$ 570,492                                | \$ 117,508                                 | \$ 688,000                                     |
| Investments               | 160,977                                   | 5,000                                      | 165,977  |
| Restricted Assets         | <u>-</u>                                  | <u>61,202</u>                              | <u>61,202</u>                                  |
| Total                     | <u>\$ 731,469</u>                         | <u>\$ 183,710</u>                          | <u>\$ 915,179</u>                              |

The breakdown between deposits and investments is as follows:

|  | <b><u>PRIMARY<br/>GOVERNMENT</u></b> |
|--|--------------------------------------|
| Bank Deposits  | \$ 915,179                           |
| (Checking and Savings Accounts, Certificates of Deposit) |                                      |
| Investment in Securities                                 | -                                    |
| (Mutual Funds and Similar Vehicles)                      |                                      |
| Petty Cash and Cash on Hand                              | -                                    |
| Total  | <u>\$ 915,179</u>                    |

At December 31, 2005, the Village had deposits with a carrying amount of \$915,179 and a bank balance of \$953,665. Of the bank balance, \$300,000 is covered by federal depository insurance, \$653,665 is uninsured and \$0 is collateralized.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

**CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

|                                      | <b><u>BEGINNING<br/>BALANCE</u></b> | <b><u>INCREASES</u></b> | <b><u>DECREASES</u></b> | <b><u>ADJUST-<br/>MENTS</u></b> | <b><u>ENDING<br/>BALANCE</u></b> |
|--------------------------------------|-------------------------------------|-------------------------|-------------------------|---------------------------------|----------------------------------|
| <b>Governmental Activities</b>       |                                     |                         |                         |                                 |                                  |
| Capital Assets not Being Depreciated |                                     |                         |                         |                                 |                                  |
| Land                                 | \$ 10,000                           | \$ 16,912               | \$ -                    | \$ (8,000)                      | \$ 18,912                        |
| Subtotal                             | <u>10,000</u>                       | <u>16,912</u>           | <u>-</u>                | <u>(8,000)</u>                  | <u>18,912</u>                    |
| Capital Assets Being Depreciated     |                                     |                         |                         |                                 |                                  |
| Buildings and Improvements           | 177,624                             | -                       | -                       | (153,948)                       | 23,676                           |
| Land Improvements                    | -                                   | 234,432                 | -                       | 23,926                          | 258,358                          |
| Furniture and Fixtures               | 13,300                              | -                       | -                       | (10,778)                        | 2,522                            |
| Equipment                            | 197,945                             | 12,309                  | -                       | 25,150                          | 235,404                          |
| Datat Processing Equipment           | -                                   | 1,834                   | -                       | 7,778                           | 9,612                            |
| Infrastructue                        | <u>-</u>                            | <u>170,301</u>          | <u>-</u>                | <u>-</u>                        | <u>170,301</u>                   |
| Subtotal                             | <u>388,869</u>                      | <u>418,876</u>          | <u>-</u>                | <u>(107,872)</u>                | <u>699,873</u>                   |
| Less Accumulated Depreciation for    |                                     |                         |                         |                                 |                                  |
| Buildings and Improvements           | 12,789                              | 503                     | -                       | -                               | 13,292                           |
| Land Improvements                    | 7,531                               | 1,017                   | -                       | -                               | 8,548                            |
| Furniture and Fixtures               | 1,816                               | 227                     | -                       | -                               | 2,043                            |
| Equipment                            | 155,304                             | 10,400                  | -                       | -                               | 165,704                          |
| Datat Processing Equipment           | 4,246                               | 1,324                   | -                       | -                               | 5,570                            |
| Infrastructure                       | <u>-</u>                            | <u>-</u>                | <u>-</u>                | <u>-</u>                        | <u>-</u>                         |
| Subtotal                             | <u>181,686</u>                      | <u>13,471</u>           | <u>-</u>                | <u>-</u>                        | <u>195,157</u>                   |
| Net Capital Assets Being             |                                     |                         |                         |                                 |                                  |
| Depreciated                          | <u>207,183</u>                      | <u>405,405</u>          | <u>-</u>                | <u>(107,872)</u>                | <u>504,716</u>                   |
| Governmental Activities Total        |                                     |                         |                         |                                 |                                  |
| Capital Assets-Net of                |                                     |                         |                         |                                 |                                  |
| Depreciation                         | <u>\$ 217,183</u>                   | <u>\$ 422,317</u>       | <u>\$ -</u>             | <u>\$ (115,872)</u>             | <u>\$ 523,628</u>                |

The adjustments above reflect corrections made during the current year to adjust the carrying balances to the Village's actual physical asset listing and eliminate all assets under the Village's cost threshold of \$500 for equipment and \$1,000 for improvements.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2005

**CAPITAL ASSETS (Continued)**

|   | <b><u>BEGINNING<br/>BALANCE</u></b> | <b><u>INCREASES</u></b> | <b><u>DECREASES</u></b> | <b><u>ENDING<br/>BALANCE</u></b> |
|---|-------------------------------------|-------------------------|-------------------------|----------------------------------|
| <b>Business-Type Activities</b>   |                                     |                         |                         |                                  |
| Capital Assets not Being Depreciated                                    |                                     |                         |                         |                                  |
| Land  | \$ 50,000                           | \$ -                    | \$ -                    | \$ 50,000                        |
| Construction in Progress  | 360,443                             | 89,926                  | 362,199                 | 88,170                           |
| Subtotal  | 410,443                             | 89,926                  | 362,199                 | 138,170                          |
| Capital Assets Being Depreciated  |                                     |                         |                         |                                  |
| Buildings   | -                                   | 157,295                 | -                       | 157,295                          |
| Equipment   | 91,390                              | 8,976                   | -                       | 100,366                          |
| Infrastructure  | 541,288                             | 204,904                 | -                       | 746,192                          |
| Subtotal  | 632,678                             | 371,175                 | -                       | 1,003,853                        |
| Less Accumulated Depreciation for                                       |                                     |                         |                         |                                  |
| Buildings   | -                                   | 649                     | -                       | 649                              |
| Equipment   | 59,398                              | 8,227                   | -                       | 67,625                           |
| Infrastructure  | 424,743                             | 12,389                  | -                       | 437,132                          |
| Subtotal  | 484,141                             | 21,265                  | -                       | 505,406                          |
| Net Capital Assets Being<br>Depreciated                                 | 148,537                             | 349,910                 | -                       | 498,447                          |
| Business-Type Activities Total<br>Capital Assets-Net of<br>Depreciation | \$ 558,980                          | \$ 439,836              | \$ 362,199              | \$ 636,617                       |

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

**CAPITAL ASSETS (Continued)**

Depreciation expense was charged to programs of the Village as follows:

|                                |                  |
|--------------------------------|------------------|
| Governmental Activities        |                  |
| General Government             | \$ 2,130         |
| Public Works                   | 10,400           |
| Recreation and Cultural        | <u>941</u>       |
| Total Government Activities    | <u>\$ 13,471</u> |
| Business-Type Activities       |                  |
| Water                          | \$ 3,679         |
| Sewer                          | <u>17,586</u>    |
| Total Business-Type Activities | <u>\$ 21,265</u> |

**INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances is as follows:

| <u>FUND</u>  | <u>INTERFUND<br/>RECEIVABLES</u> | <u>FUND</u>   | <u>INTERFUND<br/>PAYABLES</u> |
|--------------|----------------------------------|---------------|-------------------------------|
| General      | \$ 58,547                        | General       | \$ 14,961                     |
| Major Street | 4,850                            | Major Street  | 21,072                        |
| Local Street | 15,886                           | Local Streets | 8,066                         |
| Sewer System | 4,376                            | Sewer System  | 26,487                        |
| Water System | <u>10,733</u>                    | Water System  | <u>23,806</u>                 |
|              | <u>\$ 94,392</u>                 |               | <u>\$ 94,392</u>              |

| <u>FUND</u>   | <u>TRANSFERS<br/>IN</u> | <u>FUND</u>  | <u>TRANSFERS<br/>OUT</u> |
|---------------|-------------------------|--------------|--------------------------|
| Major Streets | \$ 14,812               | General Fund | <u>\$ 52,529</u>         |
| Local Streets | 26,499                  |              |                          |
| Water         | <u>11,218</u>           |              |                          |
|               | <u>\$ 52,529</u>        |              | <u>\$ 52,529</u>         |

Transfers were used to move revenues from the fund that is required to collect them to the fund where expenditures were expended and to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

**LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district ) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is a summary of the debt outstanding of the Village of Vermontville as of December 31, 2005:

|                                 | <u>INTEREST<br/>RATE</u> | <u>PRINCIPAL<br/>MATURES</u> | <u>BEGINNING<br/>BALANCE</u> | <u>ADDITION<br/>(REDUCTIONS)</u> | <u>ENDING<br/>BALANCE</u> | <u>DUE WITHIN<br/>ONE YEAR</u> |
|---------------------------------|--------------------------|------------------------------|------------------------------|----------------------------------|---------------------------|--------------------------------|
| <b>Primary Government</b>       |                          |                              |                              |                                  |                           |                                |
| <b>Governmental Activities</b>  |                          |                              |                              |                                  |                           |                                |
| Special Revenue Bonds           | 1.00%-6.00%              | 2023                         | \$ 111,250                   | \$ (1,250)                       | \$ 110,000                | \$ 2,500                       |
| Accrued Vacation and Sick       | -                        | -                            | 10,070                       | (508)                            | 9,562                     | 9,562                          |
| Total Governmental Activities   |                          |                              | <u>\$ 121,320</u>            | <u>\$ (1,758)</u>                | <u>\$ 119,562</u>         | <u>\$ 12,062</u>               |
| <b>Business-Type Activities</b> |                          |                              |                              |                                  |                           |                                |
| Revenue Bonds                   |                          |                              |                              |                                  |                           |                                |
| Water System - 2003             | 1.00%-6.00%              | 2023                         | \$ 333,750                   | \$ (3,750)                       | \$ 330,000                | \$ 7,500                       |
| Sewer System - 1998             | 5.00%                    | 2009                         | 86,000                       | (20,000)                         | 66,000                    | 21,000                         |
| Total Business-Type Activities  |                          |                              | <u>\$ 419,750</u>            | <u>\$ (23,750)</u>               | <u>\$ 396,000</u>         | <u>\$ 28,500</u>               |

The compensated absence liability attributable to the governmental activities will be liquidated by the Village's governmental funds. The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

| <u>Year End December 31</u> | <u>Governmental Activities</u> |                  | <u>Business-Type Activities</u> |                   |
|-----------------------------|--------------------------------|------------------|---------------------------------|-------------------|
|                             | <u>Principal</u>               | <u>Interest</u>  | <u>Principal</u>                | <u>Interest</u>   |
| 2006                        | \$ 12,062                      | \$ 5,226         | \$ 28,500                       | \$ 18,451         |
| 2007                        | 2,500                          | 5,106            | 29,500                          | 17,020            |
| 2008                        | 3,750                          | 4,988            | 34,250                          | 15,537            |
| 2009                        | 3,750                          | 4,810            | 11,250                          | 14,428            |
| 2010                        | 3,750                          | 4,632            | 11,250                          | 13,894            |
| 2011-2015                   | 27,500                         | 18,770           | 82,500                          | 56,308            |
| 2016-2020                   | 37,500                         | 11,423           | 112,500                         | 34,268            |
| 2021-2023                   | <u>28,750</u>                  | <u>2,782</u>     | <u>86,250</u>                   | <u>8,345</u>      |
| Total                       | <u>\$ 119,562</u>              | <u>\$ 57,737</u> | <u>\$ 396,000</u>               | <u>\$ 178,251</u> |



**VILLAGE OF VERMONTVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2005**

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**DEFERRED COMPENSATION PLAN**

The Village of Vermontville offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are held in custodial accounts as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Village of Vermontville for the purposes of providing direction to the custodian from time to time for the investment of the funds, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village of Vermontville's financial statements.

**RISK MANAGEMENT**

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance. The Village's insurance for general liability, excess liability, auto liability, trunkline liability, errors and omissions, and physical damage (equipment, buildings and contents) is carried by an insurance company.

The Village participates in the Michigan Municipal League for workers compensation coverage. The Michigan Municipal Liability and Property Pool was established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

At December 31, 2005, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

**VILLAGE OF VERMONTVILLE**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended December 31, 2005**

|                                      | <u>ORIGINAL<br/>BUDGET</u> | <u>AMENDED<br/>BUDGET</u> | <u>ACTUAL</u>  | <u>VARIANCE<br/>WITH AMENDED<br/>BUDGET</u> |
|--------------------------------------|----------------------------|---------------------------|----------------|---|
| Beginning of Year Fund Balance       | \$ 454,424                 | \$ 454,424                | \$ 454,424     | \$ -  |
| Resources (Inflows)                  |                            |                           |                |   |
| Taxes and Penalties                  | 140,000                    | 140,000                   | 157,430        | 17,430                                      |
| Licenses and Permits                 | 1,050                      | 1,050                     | 1,042          | (8)   |
| Federal Grants                       | -                          | -                         | 358,031        | 358,031                                     |
| State Grants                         | 89,000                     | 89,000                    | 87,268         | (1,732)                                     |
| Charges for Services                 | 600                        | 600                       | 1,428          | 828   |
| Interest and Rentals                 | 100                        | 100                       | 6,821          | 6,721                                       |
| Other Revenue                        | <u>22,600</u>              | <u>22,600</u>             | <u>9,649</u>   | <u>(12,951)</u>                             |
| Total Resources                      | <u>253,350</u>             | <u>253,350</u>            | <u>621,669</u> | <u>368,319</u>                              |
| Charges to Appropriations (Outflows) |                            |                           |                |   |
| Legislative                          | 17,300                     | 17,300                    | 29,466         | (12,166)                                    |
| General Government                   |                            |                           |                |   |
| President                            | 2,670                      | 2,670                     | 2,213          | 457   |
| Elections                            | 750                        | 750                       | -              | 750   |
| Clerk                                | 26,216                     | 26,216                    | 27,665         | (1,449)                                     |
| Treasurer                            | 11,720                     | 11,720                    | 12,442         | (722)                                       |
| Buildings and Grounds                | 29,625                     | 29,625                    | 88,678         | (59,053)                                    |
| Public Safety                        |                            |                           |                |   |
| Police                               | 4,000                      | 4,000                     | 3,600          | 400   |
| Ordinance Enforcement                | 4,159                      | 4,159                     | 3,988          | 171   |
| Planning Commission                  | 8,600                      | 8,600                     | 3,219          | 5,381                                       |
| Zoning Commission                    | 5,145                      | 5,145                     | 2,262          | 2,883                                       |
| Public Works                         |                            |                           |                |   |
| Garage and Maintenance               | 72,625                     | 72,625                    | 182,480        | (109,855)                                   |
| Street Lighting                      | 13,000                     | 13,000                    | 18,261         | (5,261)                                     |
| Recreational and Cultural            |                            |                           |                |   |
| Parks                                | 300                        | 300                       | 52             | 248   |
| Capital Outlay                       | <u>37,395</u>              | <u>37,395</u>             | <u>265,487</u> | <u>(228,092)</u>                            |
| Total Charges to Appropriations      | <u>233,505</u>             | <u>233,505</u>            | <u>639,813</u> | <u>(406,308)</u>                            |

**VILLAGE OF VERMONTVILLE**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)**  
**For the Year Ended December 31, 2005**

|  | <u>ORIGINAL<br/>BUDGET</u> | <u>AMENDED<br/>BUDGET</u> | <u>ACTUAL</u>     | <u>VARIANCE<br/>WITH AMENDED<br/>BUDGET</u> |
|--|----------------------------|---------------------------|-------------------|---|
| Excess of Resources Over<br>(Under) Appropriations                                     | <u>19,845</u>              | <u>19,845</u>             | <u>(18,144)</u>   | <u>(37,989)</u>                             |
| Other Financing Sources (Uses)<br>Operating Transfers Out                              | <u>(24,000)</u>            | <u>(24,000)</u>           | <u>(52,529)</u>   | <u>(28,529)</u>                             |
| Total Other Financing Sources (Uses)   | <u>(24,000)</u>            | <u>(24,000)</u>           | <u>(52,529)</u>   | <u>(28,529)</u>                             |
| Excess of Resources and Other<br>Sources Over (Under) Appropriations<br>and Other Uses | <u>(4,155)</u>             | <u>(4,155)</u>            | <u>(70,673)</u>   | <u>(66,518)</u>                             |
| Budgetary Fund Balance -<br>December 31, 2005  | <u>\$ 450,269</u>          | <u>\$ 450,269</u>         | <u>\$ 383,751</u> | <u>\$ (66,518)</u>                          |

**VILLAGE OF VERMONTVILLE**  
**BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**  
**For the Year Ended December 31, 2005**

|  | <u>ORIGINAL<br/>BUDGET</u> | <u>AMENDED<br/>BUDGET</u> | <u>ACTUAL</u>     | <u>VARIANCE<br/>WITH AMENDED<br/>BUDGET</u> |
|--|----------------------------|---------------------------|-------------------|---|
| Beginning of Year Fund Balance   | \$ 194,532                 | \$ 194,532                | \$ 194,532        | \$ -  |
| Resources (Inflows)  |                            |                           |                   |   |
| Federal Grants   | -                          | -                         | 109,722           | 109,722                                     |
| State Grants   | 38,000                     | 38,000                    | 51,188            | 13,188                                      |
| Interest and Rentals   | 250                        | 250                       | 2,999             | 2,749                                       |
| Other Revenue  | <u>1,607</u>               | <u>1,607</u>              | <u>1,627</u>      | <u>20</u>                                   |
| Total Resources  | <u>39,857</u>              | <u>39,857</u>             | <u>165,536</u>    | <u>125,679</u>                              |
| Charges to Appropriations (Outflows)   |                            |                           |                   |   |
| Public Works   |                            |                           |                   |   |
| Street Administration  | -                          | -                         | 62                | (62)  |
| Street Construction  | -                          | -                         | 125,825           | (125,825)                                   |
| Street Routine Maintenance   | 34,300                     | 34,300                    | 14,183            | 20,117                                      |
| Street Winter Maintenance  | 7,632                      | 7,632                     | 6,743             | 889   |
| Debt Service   |                            |                           |                   |   |
| Principal  | 1,506                      | 1,506                     | 1,250             | 256   |
| Interest   | <u>6,419</u>               | <u>6,419</u>              | <u>5,046</u>      | <u>1,373</u>                                |
| Total Charges to Appropriations  | <u>49,857</u>              | <u>49,857</u>             | <u>153,109</u>    | <u>(103,252)</u>                            |
| Excess of Resources Over<br>(Under) Appropriations                                     | <u>(10,000)</u>            | <u>(10,000)</u>           | <u>12,427</u>     | <u>22,427</u>                               |
| Other Financing Sources (Uses)   |                            |                           |                   |   |
| Operating Transfers In   | <u>-</u>                   | <u>-</u>                  | <u>14,812</u>     | <u>14,812</u>                               |
| Total Other Financing Sources (Uses)   | <u>-</u>                   | <u>-</u>                  | <u>14,812</u>     | <u>14,812</u>                               |
| Excess of Resources and Other<br>Sources Over (Under) Appropriations<br>and Other Uses | <u>(10,000)</u>            | <u>(10,000)</u>           | <u>27,239</u>     | <u>37,239</u>                               |
| Budgetary Fund Balance -<br>December 31, 2005  | <u>\$ 184,532</u>          | <u>\$ 184,532</u>         | <u>\$ 221,771</u> | <u>\$ 37,239</u>                            |

**VILLAGE OF VERMONTVILLE**  
**BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND**  
**For the Year Ended December 31, 2005**

|  | <u>ORIGINAL<br/>BUDGET</u> | <u>AMENDED<br/>BUDGET</u> | <u>ACTUAL</u>     | <u>VARIANCE<br/>WITH AMENDED<br/>BUDGET</u> |
|--|----------------------------|---------------------------|-------------------|---|
| Beginning of Year Fund Balance   | \$ 159,381                 | \$ 159,381                | \$ 159,381        | \$ -  |
| Resources (Inflows)  |                            |                           |                   |   |
| Taxes  | 15,000                     | 15,000                    | -                 | (15,000)                                    |
| State Grants   | 13,000                     | 13,000                    | 16,673            | 3,673                                       |
| Interest and Rentals   | -                          | -                         | 2,373             | 2,373                                       |
| Other Revenue  | <u>2,607</u>               | <u>2,607</u>              | <u>1,811</u>      | <u>(796)</u>                                |
| Total Resources  | <u>30,607</u>              | <u>30,607</u>             | <u>20,857</u>     | <u>(9,750)</u>                              |
| Charges to Appropriations (Outflows)   |                            |                           |                   |   |
| Public Works   |                            |                           |                   |   |
| Street Routine Maintenance   | 27,900                     | 27,900                    | 18,055            | 9,845                                       |
| Street Winter Maintenance  | <u>6,300</u>               | <u>6,300</u>              | <u>4,625</u>      | <u>1,675</u>                                |
| Total Charges to Appropriations  | <u>34,200</u>              | <u>34,200</u>             | <u>22,680</u>     | <u>11,520</u>                               |
| Excess of Resources Over<br>(Under) Appropriations                                     | <u>(3,593)</u>             | <u>(3,593)</u>            | <u>(1,823)</u>    | <u>1,770</u>                                |
| Other Financing Sources (Uses)   |                            |                           |                   |   |
| Operating Transfers In   | <u>-</u>                   | <u>-</u>                  | <u>26,499</u>     | <u>26,499</u>                               |
| Total Other Financing Sources (Uses)   | <u>-</u>                   | <u>-</u>                  | <u>26,499</u>     | <u>26,499</u>                               |
| Excess of Resources and Other<br>Sources Over (Under) Appropriations<br>and Other Uses | <u>(3,593)</u>             | <u>(3,593)</u>            | <u>24,676</u>     | <u>28,269</u>                               |
| Budgetary Fund Balance -<br>December 31, 2005  | <u>\$ 155,788</u>          | <u>\$ 155,788</u>         | <u>\$ 184,057</u> | <u>\$ 28,269</u>                            |

**VILLAGE OF VERMONTVILLE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended December 31, 2005**

| <u>REVENUES</u>            | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE<br/>FAVORABLE<br/>(UNFAVORABLE)</u> |
|----------------------------|---------------|---------------|---|
| Taxes and Penalties        |               |               |   |
| Property Taxes             |               | \$ 155,843    |   |
| Collection Fees            |               | 1,587         |   |
| Total Taxes and Penalties  | \$ 140,000    | 157,430       | \$ 17,430                                       |
| Licenses and Permits       |               |               |   |
| Building Permits           |               | 70            |   |
| Liquor License Refund      |               | 972           |   |
| Total Licenses and Permits | 1,050         | 1,042         | (8)   |
| Federal Grants             | -             | 358,031       | 358,031   |
| State Grants               |               |               |   |
| State Revenue Sharing:     |               |               |   |
| Sales Tax                  |               | 87,268        |   |
| Total State Grants         | 89,000        | 87,268        | (1,732)   |
| Charges for Services       |               |               |   |
| Leaf Collection            |               | 1,374         |   |
| Other                      |               | 54            |   |
| Total Charges for Services | 600           | 1,428         | 828   |
| Interest and Rentals       |               |               |   |
| Interest                   |               | 6,821         |   |
| Total Interest and Rentals | 100           | 6,821         | 6,721   |
| Other Revenue              |               |               |   |
| Miscellaneous              |               | 7,273         |   |
| Refunds and Rebates        |               | 1,066         |   |
| Equipment Rental           |               | 1,310         |   |
| Total Other Revenue        | 22,600        | 9,649         | (12,951)  |
| Total Revenues             | 253,350       | 621,669       | 368,319   |

**VILLAGE OF VERMONTVILLE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended December 31, 2005**

| <u>EXPENDITURES</u>        | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE<br/>FAVORABLE<br/>(UNFAVORABLE)</u> |
|----------------------------|---------------|---------------|---|
| <b>Legislative:</b>        |               |               |   |
| Salaries - Village Council |               | 4,480         |   |
| Payroll Taxes              |               | 324           |   |
| Professional Services      |               | 13,006        |   |
| Maintenance and Repairs    |               | 6,432         |   |
| Memberships and Dues       |               | 4,167         |   |
| Printing and Publishing    |               | 274           |   |
| Miscellaneous              |               | <u>783</u>    |   |
| Total Legislative          | <u>17,300</u> | <u>29,466</u> | <u>(12,166)</u>                                 |
| <b>General Government:</b> |               |               |   |
| Village President:         |               |               |   |
| Salary                     |               | 1,630         |   |
| Payroll Taxes              |               | 124           |   |
| Miscellaneous              |               | <u>459</u>    |   |
| Total Village President    | 2,670         | <u>2,213</u>  | 457   |
| Elections                  | 750           | <u>-</u>      | 750   |
| Village Clerk:             |               |               |   |
| Salary                     |               | 21,499        |   |
| Payroll Taxes              |               | 1,614         |   |
| Supplies                   |               | 1,872         |   |
| Contractual Services       |               | 713           |   |
| Memberships and Dues       |               | 401           |   |
| Telephone                  |               | 1,566         |   |
| Capital Outlay             |               | <u>1,834</u>  |   |
| Total Village Clerk        | 28,716        | <u>29,499</u> | (783)   |
| Treasurer:                 |               |               |   |
| Salary                     |               | 10,140        |   |
| Payroll Taxes              |               | 776           |   |
| Supplies                   |               | 1,047         |   |
| Contractual Services       |               | <u>479</u>    |   |
| Total Treasurer            | 12,280        | <u>12,442</u> | (162)   |

**VILLAGE OF VERMONTVILLE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended December 31, 2005**

| <u>EXPENDITURES (Continued)</u>        | <u>BUDGET</u> | <u>ACTUAL</u>  | <u>VARIANCE<br/>FAVORABLE<br/>(UNFAVORABLE)</u> |
|--|---------------|----------------|---|
| <b>General Government (Continued):</b> |               |                |   |
| Buildings and Grounds:                 |               |                |   |
| Wages                                  |               | 724            |   |
| Payroll Taxes                          |               | 55             |   |
| Supplies                               |               | 83             |   |
| Maintenance and Repairs                |               | 999            |   |
| Contractual Services                   |               | 66,178         |   |
| Utilities                              |               | 4,371          |   |
| Insurance                              |               | 15,931         |   |
| Miscellaneous                          |               | 337            |   |
| Capital Outlay                         |               | 258,315        |   |
| Total Buildings and Grounds            | <u>36,625</u> | <u>346,993</u> | <u>(310,368)</u>                                |
| Total General Government               | <u>81,041</u> | <u>391,147</u> | <u>(310,106)</u>                                |
| <b>Public Safety:</b>                  |               |                |   |
| Police:                                |               |                |   |
| Contractual Services                   |               | 3,600          |   |
| Total Police                           | 4,000         | <u>3,600</u>   | 400   |
| Ordinance Enforcement:                 |               |                |   |
| Wages                                  |               | 3,180          |   |
| Payroll Taxes                          |               | 243            |   |
| Supplies                               |               | 243            |   |
| Contractual Services                   |               | 281            |   |
| Miscellaneous                          |               | 41             |   |
| Total Ordinance Enforcement            | 4,159         | <u>3,988</u>   | 171   |
| Planning Commission:                   |               |                |   |
| Planning Board Wages                   |               | 160            |   |
| Payroll Taxes                          |               | 12             |   |
| Training                               |               | 732            |   |
| Supplies                               |               | 332            |   |
| Contractual Services                   |               | 1,786          |   |
| Insurance                              |               | 197            |   |
| Total Planning Commission              | 8,600         | <u>3,219</u>   | 5,381   |



**VILLAGE OF VERMONTVILLE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended December 31, 2005**

| <u>EXPENDITURES (Continued)</u>   | <u>BUDGET</u>  | <u>ACTUAL</u>  | <u>VARIANCE<br/>FAVORABLE<br/>(UNFAVORABLE)</u> |
|-----------------------------------|----------------|----------------|---|
| <b>Public Safety (Continued):</b> |                |                |   |
| Zoning Commission:                |                |                |   |
| Zoning Board Wages                |                | 1,200          |   |
| Payroll Taxes                     |                | 92             |   |
| Training                          |                | 356            |   |
| Supplies                          |                | 386            |   |
| Contractual Services              |                | 138            |   |
| Utilities                         |                | 90             |   |
| Total Zoning Commission           | <u>5,145</u>   | <u>2,262</u>   | <u>2,883</u>                                    |
| Total Public Safety               | <u>21,904</u>  | <u>13,069</u>  | <u>8,835</u>                                    |
| <b>Public Works:</b>              |                |                |   |
| Garage and Maintenance:           |                |                |   |
| Wages                             |                | 46,385         |   |
| Fringes                           |                | 5,832          |   |
| Payroll Taxes                     |                | 3,555          |   |
| Supplies                          |                | 2,260          |   |
| Contractual Services              |                | 2,590          |   |
| Gas and Oil                       |                | 4,666          |   |
| Utilities                         |                | 1,694          |   |
| Maintenance and Repairs           |                | 10,215         |   |
| Membership and Dues               |                | 890            |   |
| Miscellaneous                     |                | 270            |   |
| Construction                      |                | 104,123        |   |
| Capital Outlay                    |                | 5,338          |   |
| Total Garage and Maintenance      | <u>99,960</u>  | <u>187,818</u> | <u>(87,858)</u>                                 |
| Street Lighting:                  |                |                |   |
| Utilities                         |                | 12,245         |   |
| Maintenance and Repairs           |                | 6,016          |   |
| Total Street Lighting             | <u>13,000</u>  | <u>18,261</u>  | <u>(5,261)</u>                                  |
| Total Public Works                | <u>112,960</u> | <u>206,079</u> | <u>(93,119)</u>                                 |
| <b>Recreation and Cultural:</b>   |                |                |   |
| Parks:                            |                |                |   |
| Supplies                          |                | 52             |   |
| Total Parks                       | <u>300</u>     | <u>52</u>      | <u>248</u>                                      |
| Total Recreation and Cultural     | <u>300</u>     | <u>52</u>      | <u>248</u>                                      |

**VILLAGE OF VERMONTVILLE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended December 31, 2005**

| <u>EXPENDITURES (Continued)</u>  | <u>BUDGET</u>     | <u>ACTUAL</u>     | <u>VARIANCE<br/>FAVORABLE<br/>(UNFAVORABLE)</u> |
|--|-------------------|-------------------|---|
| Total Expenditures   | <u>233,505</u>    | <u>639,813</u>    | <u>(406,308)</u>                                |
| Excess of Revenues Over Expenditures   | <u>19,845</u>     | <u>(18,144)</u>   | <u>(37,989)</u>                                 |
| <b>Other Financing Sources (Uses):</b>   |                   |                   |   |
| Operating Transfers Out  | <u>(24,000)</u>   | <u>(52,529)</u>   | <u>(28,529)</u>                                 |
| Total Other Financing Sources (Uses)   | <u>(24,000)</u>   | <u>(52,529)</u>   | <u>(28,529)</u>                                 |
| Excess of Revenues and Other Sources Over<br>(Under) Expenditures and Other Uses | <u>(4,155)</u>    | <u>(70,673)</u>   | <u>(66,518)</u>                                 |
| Fund Balance-January 1, 2005   | <u>454,424</u>    | <u>454,424</u>    | <u>-</u>  |
| Fund Balance-December 31, 2005   | <u>\$ 450,269</u> | <u>\$ 383,751</u> | <u>\$ (66,518)</u>                              |

**VILLAGE OF VERMONTVILLE**  
**COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS**  
**December 31, 2005**

| <b>ASSETS</b>                             | <b>Major<br/>Streets</b> | <b>Local<br/>Streets</b> | <b>Total</b>      |
|---|--------------------------|--------------------------|-------------------|
| Cash and Cash Equivalents                 | \$ 201,455               | \$ 173,096               | \$ 374,551        |
| Investments                               | 35,000                   | -                        | 35,000            |
| Receivables (Net)                         |                          |                          |                   |
| Special Assessments                       | -                        | 1,866                    | 1,866             |
| Due From Other Units of Government        | 60,229                   | 1,313                    | 61,542            |
| Due From Other Funds                      | <u>4,850</u>             | <u>15,886</u>            | <u>20,736</u>     |
| Total Assets                              | <u>\$ 301,534</u>        | <u>\$ 192,161</u>        | <u>\$ 493,695</u> |
| <b><u>LIABILITIES AND FUND EQUITY</u></b> |                          |                          |                   |
| Liabilities                               |                          |                          |                   |
| Accounts Payable                          | \$ 57,527                | \$ 38                    | \$ 57,565         |
| Accrued Liabilities                       | 1,164                    | -                        | 1,164             |
| Due To Other Funds                        | <u>21,072</u>            | <u>8,066</u>             | <u>29,138</u>     |
| Total Liabilities                         | <u>79,763</u>            | <u>8,104</u>             | <u>87,867</u>     |
| Fund Equity                               |                          |                          |                   |
| Fund Balance                              |                          |                          |                   |
| Unreserved - Undesignated                 | <u>221,771</u>           | <u>184,057</u>           | <u>405,828</u>    |
| Total Fund Equity                         | <u>221,771</u>           | <u>184,057</u>           | <u>405,828</u>    |
| Total Liabilities and Fund Equity         | <u>\$ 301,534</u>        | <u>\$ 192,161</u>        | <u>\$ 493,695</u> |

**VILLAGE OF VERMONTVILLE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS**  
**For the Year Ended DECEMBER 31, 2005**

|  | <u>Major<br/>Streets</u> | <u>Local<br/>Streets</u> | <u>Total</u>      |
|--|--------------------------|--------------------------|-------------------|
| Revenues   |                          |                          |                   |
| Federal Grants   | \$ 109,722               | \$ -                     | \$ 109,722        |
| State Grants   | 51,188                   | 16,673                   | 67,861            |
| Interest and Rentals   | 2,999                    | 2,373                    | 5,372             |
| Other Revenue  | <u>1,627</u>             | <u>1,811</u>             | <u>3,438</u>      |
| Total Revenues   | <u>165,536</u>           | <u>20,857</u>            | <u>186,393</u>    |
| Expenditures   |                          |                          |                   |
| Current  |                          |                          |                   |
| Public Works   |                          |                          |                   |
| Street Administration  | 62                       | -                        | 62                |
| Street Construction  | 125,825                  | -                        | 125,825           |
| Street Routine Maintenance   | 14,183                   | 18,055                   | 32,238            |
| Street Winter Maintenance  | 6,743                    | 4,625                    | 11,368            |
| Debt Service   |                          |                          |                   |
| Principal  | 1,250                    | -                        | 1,250             |
| Interest   | <u>5,046</u>             | <u>-</u>                 | <u>5,046</u>      |
| Total Expenditures   | <u>153,109</u>           | <u>22,680</u>            | <u>175,789</u>    |
| Excess of Revenues Over (Under)  |                          |                          |                   |
| Expenditures   | <u>12,427</u>            | <u>(1,823)</u>           | <u>10,604</u>     |
| Other Financing Sources (Uses)   |                          |                          |                   |
| Operating Transfers In   | <u>14,812</u>            | <u>26,499</u>            | <u>41,311</u>     |
| Total Other Financing Sources (Uses)   | <u>14,812</u>            | <u>26,499</u>            | <u>41,311</u>     |
| Excess of Revenues and Other Sources Over<br>(Under) Expenditures and Other Uses | 27,239                   | 24,676                   | 51,915            |
| Fund Balance-Janauary 1, 2005  | <u>194,532</u>           | <u>159,381</u>           | <u>353,913</u>    |
| Fund Balance-December 31, 2005   | <u>\$ 221,771</u>        | <u>\$ 184,057</u>        | <u>\$ 405,828</u> |



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Village Council  
Village of Vermontville  
Eaton County, Michigan

We have audited the financial statements of the Village of Vermontville as of and for the year ended December 31, 2005, and have issued our report thereon dated May 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Vermontville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Vermontville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Village Council and management. However, this report is a matter of public record and its distribution is not limited.

Hastings, MI  
May 5, 2006

*Walker, Fluke & Sheldon, PLC*



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Village Council  
Village of Vermontville  
Eaton County, Michigan

We have audited the compliance of Village of Vermontville with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to major Federal program for the year ended December 31, 2005. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Village of Vermontville's management. Our responsibility is to express an opinion on Village of Vermontville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Village of Vermontville's compliance with those requirements and performing such procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Vermontville's compliance with those requirements.

In our opinion, Village of Vermontville complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending December 31, 2005.

**Internal Control Over Compliance**

The management of Village of Vermontville is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing the audit, we considered Village of Vermontville's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

In planning and performing our audit, we considered Village of Vermontville's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of Village of Vermontville as of and for the year ended December 31, 2005, and have issued our report thereon dated May 5, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Village of Vermontville's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Village of Vermontville and management, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Hastings, MI  
May 5, 2006

Walker, Funke & Sheldon, PLLC

**VILLAGE OF VERMONTVILLE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2005**

| Federal Grantor/Pass Through<br>Grantor/Program Title  | Pass-Through Grantors |                         | Program Award Amount | Prior Year Expenditures | Current Year Expenditures |
|--|-----------------------|-------------------------|----------------------|-------------------------|---------------------------|
|  | Federal CFDA Number   | Through Grantors Number |                      |                         |                           |
| US Department of Housing and Urban Development<br>Passed through Michigan Strategic Fund<br>Community Development Block Grant-<br>Main Street Reconstruction | 14.228                | MSC 204057-PW           | \$ 925,000           | -                       | \$ 543,728                |
| Total Federal Assistance   |                       |                         | \$ 925,000           | -                       | \$ 543,728                |